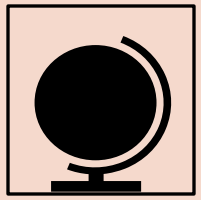
ECONOMIC AND BUSINESS HISTORY 26/27

LECTURE 10 – DEGLOBALIZATION

ISEG Lisbon School of Economics & Management
Universidade de Lisboa

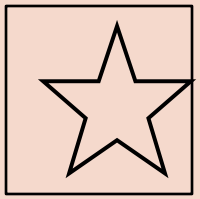
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Imperalism and Glob

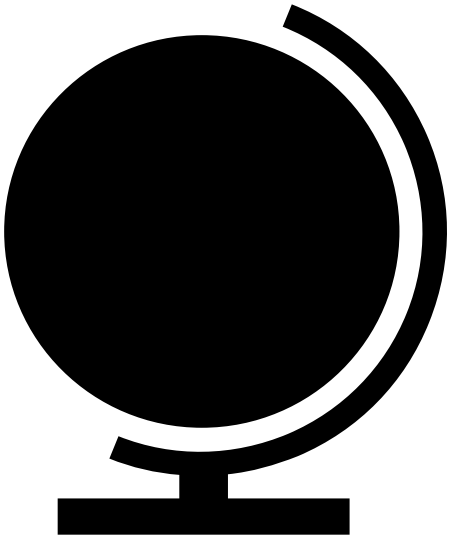


Death of the 1st Globalization

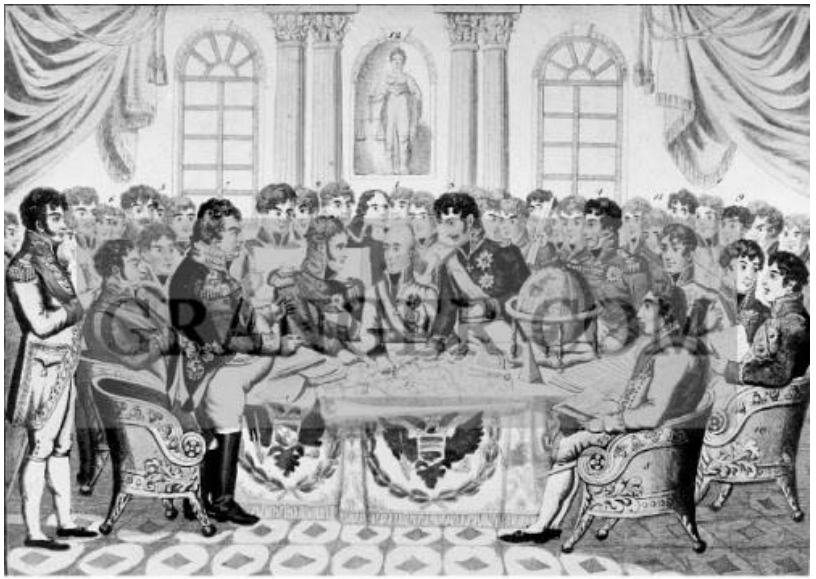


US Hegemony

Globalization = Imperialism?







0112553 CONGRESS OF VIENNA, 1815.
Credit: Rue des Archives / The Granger Collection, New York

0112553

1815, Vienna

Globalization & Imperialism

The drive for Globalization (in trade and capital) belonged to the private sectors

Globalization also required some level of cooperation amongst states, especially bilateral cooperation (trade treatises)

Nevertheless, major powers continued to rival and had their competing geopolitical ambitions

Thus, outside of Europe and the Americas, they started to expand politically together with trade and investment

Also, the technology that gave these countries an economic edge also created a clear technological asymetry vis-à-vis Asian, African and Pacific polities

The “One Hundred Years’ Peace”?

The period from 1815 (Defeat of Napoleon and Congress of Vienna) to 1914 was one marked by a “balance of power”

No power had the military strength to dominate Europe

As such, aliances shifted to prevent the emergence of a hegemonic block

Thus, in 1853-4, France and England (with Austrian cooperation) fought Russia to prevent Russian expansion at the cost of the Ottoman Empire (Crimean War)

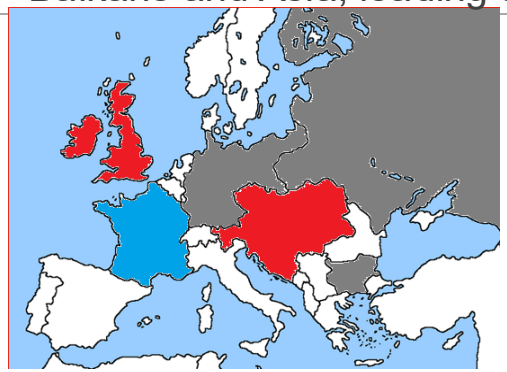
Since the 1871 German Unification, alliances accomodated several “diplomatic crises”



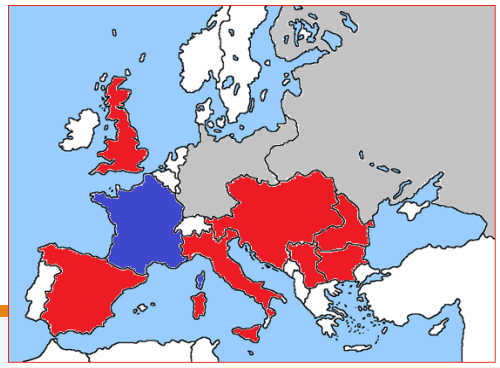


Balance of Power (1)

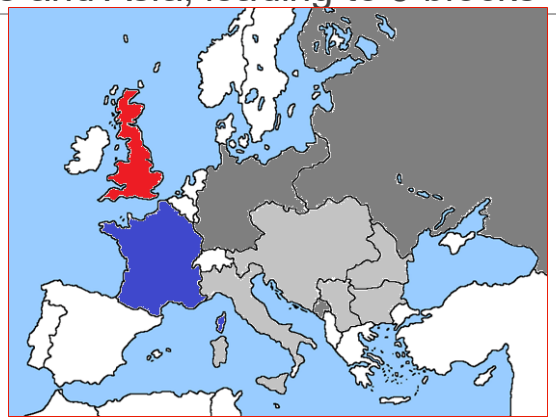
1871 – Franco-German hostility, with Russia on G side; Austria and GB rival Russia in, respectively, the Balkans and Asia, leading to 3 blocks



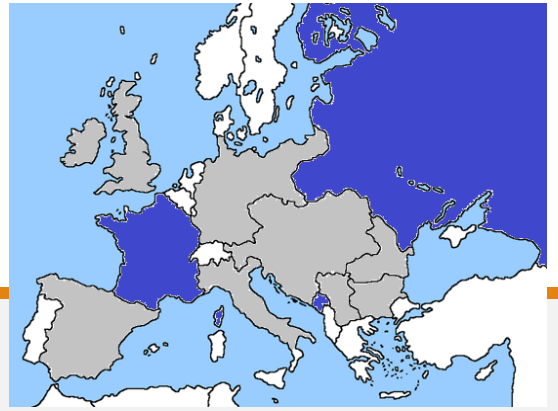
1887 – AH broke with G and R in order to support Bulgaria against Russia and created the 'Mediterranean Agreement' with GB, AH and It and minor powers



1871 – Franco-German hostility, with Russia on G side; Austria and GB rival Russia in, respectively, the Balkans and Asia, leading to 3 blocks

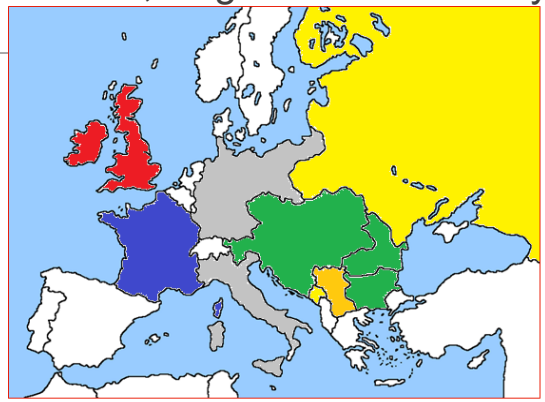


1891 – Disputes about tariffs and loans led to break between G and R; F seized the occasion to ally to Russia, using financial aid, Triple Alliance (G, AH and It is formed)

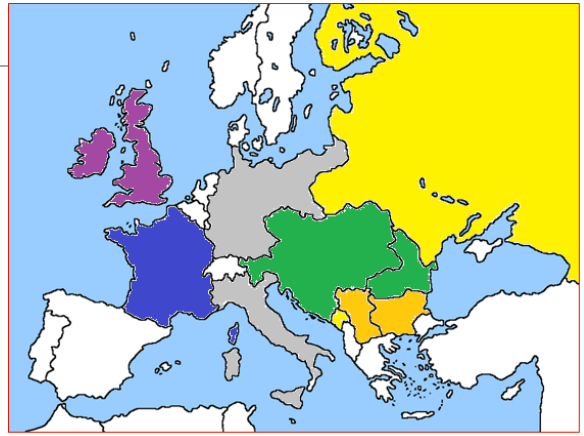


Balance of Power (2)

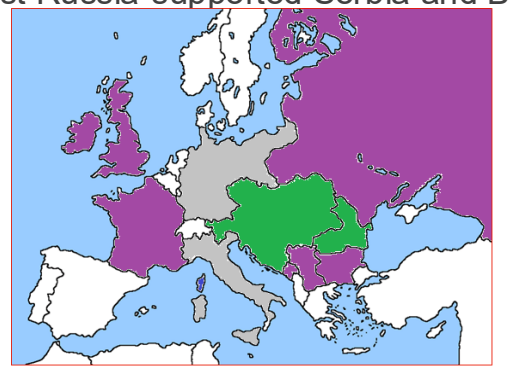
1897 – Agitation in the Balkans led to the a new break between AH and Serbia, England moved away from



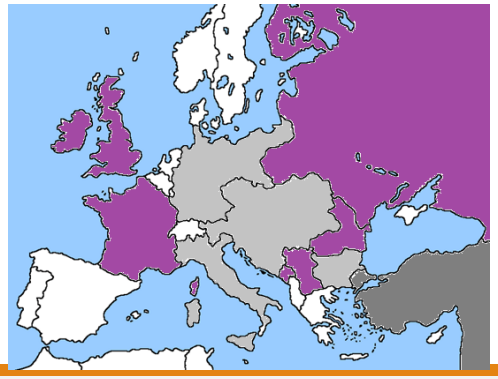
1904 – France and England celebrate an agreement, and harmonise their positions in Europe and in the world



1909 – R and GB end the Great Game, whereas the Naval Race continued. AH pursuit an independent policy in the Balkans against Russia-supported Serbia and Bulgaria



1914 – The 1912-3 Balkan War in which Russian allies beat the Turks led AH to get close to Germany again



Imperialism

- Wars between the European powers was most of the times avoided or were short and contained (Crimean War, 53-4, Italian Unification 59-61, Danish-Prussian 64, Prussian-Austrian 66, Franco-Prussia 70-1)
- In turn, between 1820 and 1914 Globalization was intertwined with the imperial expansion of the most successful economic powers:
  - Great-Britain
  - France
  - Russia
  - The United States
  - Germany (unified in 1871)
  - Belgium (founded 1830)
  - Italy (unified 1861)
- Their competing interests also gave rise to many ‘crises’ threatening peace and, by extension, Globalization

Gunboat Diplomacy

During the First Globalization, the military power of the European states acted as the protector of commercial and financial interests

This was called “Gunboat Diplomacy”

Since the 1840s, GB also used her naval hegemony to obtain commercial advantages and/or territory

The better-known cased was the Opium Wars against China, when Great Britain forced the Chinese Empire to cede Hong Kong and lower tariffs (for opium), thus creating the “First Narco-State” (Niall Ferguson)

Later, other powers also succeeded in extracting concessions from China





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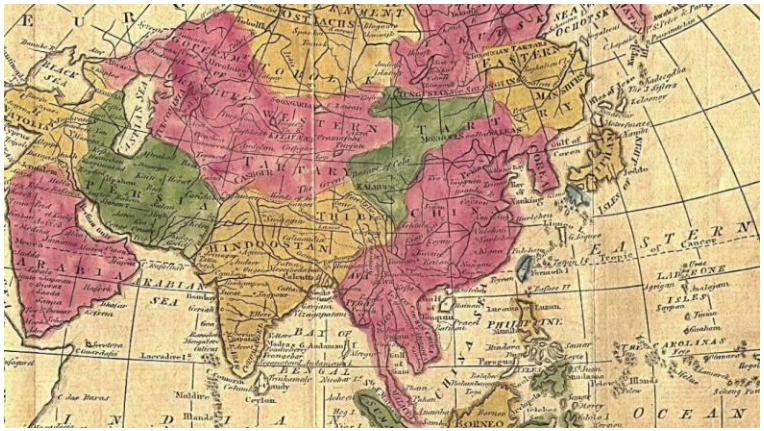
The ‘Great Game’

Since the 1830s the British considered that their hold in India was threatened by Russia, whereas Russians feared British influence over Central Asia

GB had thwarted British ambitions before (Crimean War of 1853-6)

Persia (one of the few non-European independent countries) became a bone of contention between Britain and the Russian Empire, with both powers trying to control their regime

This rivalry was called the ‘Great Game’



The ‘Great Game’



Russia and GB harmonised their competing interests, with a series of agreements

In 1907, the Entente with the two powers and France led them to adjust their imperial borders

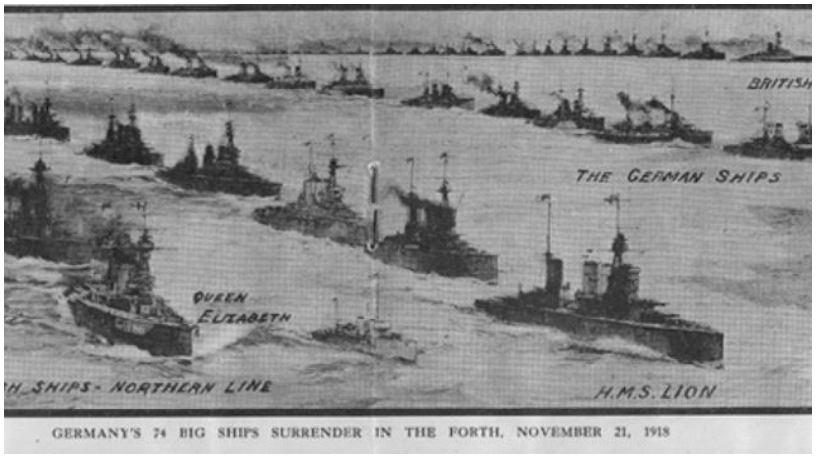
A good example is modern-day Afghanistan, which was left as a buffer state between British India and Imperial Russia, and whose border was designed to separate the two major powers:

- the Wakhan corridor was given to Afghanistan so that British India and the Russian Empire did not have a common border



The ‘Naval Race’





GERMANY'S 74 BIG SHIPS SURRENDER IN THE FORTH, NOVEMBER 21, 1918

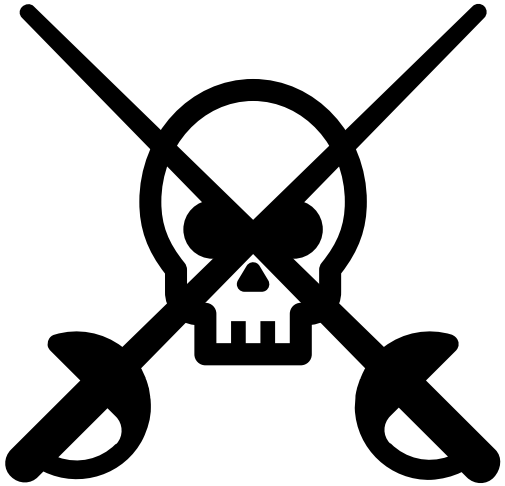
- The unification of Germany (1871) went hand-in-hand with its economic ascendancy
- With its high levels of human capital and coal mines, Germany became a continental industrial power (in financial and fixed capital) leading in some sectors (chemical and steel)
- German diplomacy until 1895 aimed to isolate France and attract Russia
- However, in 1895, G sought to expand its fleet, a move that attracted the hostility of GB
- Germany also alienated Russia by the alliance with Austria
- Ultimately, German naval ambitions pushed GB to F

System Failure

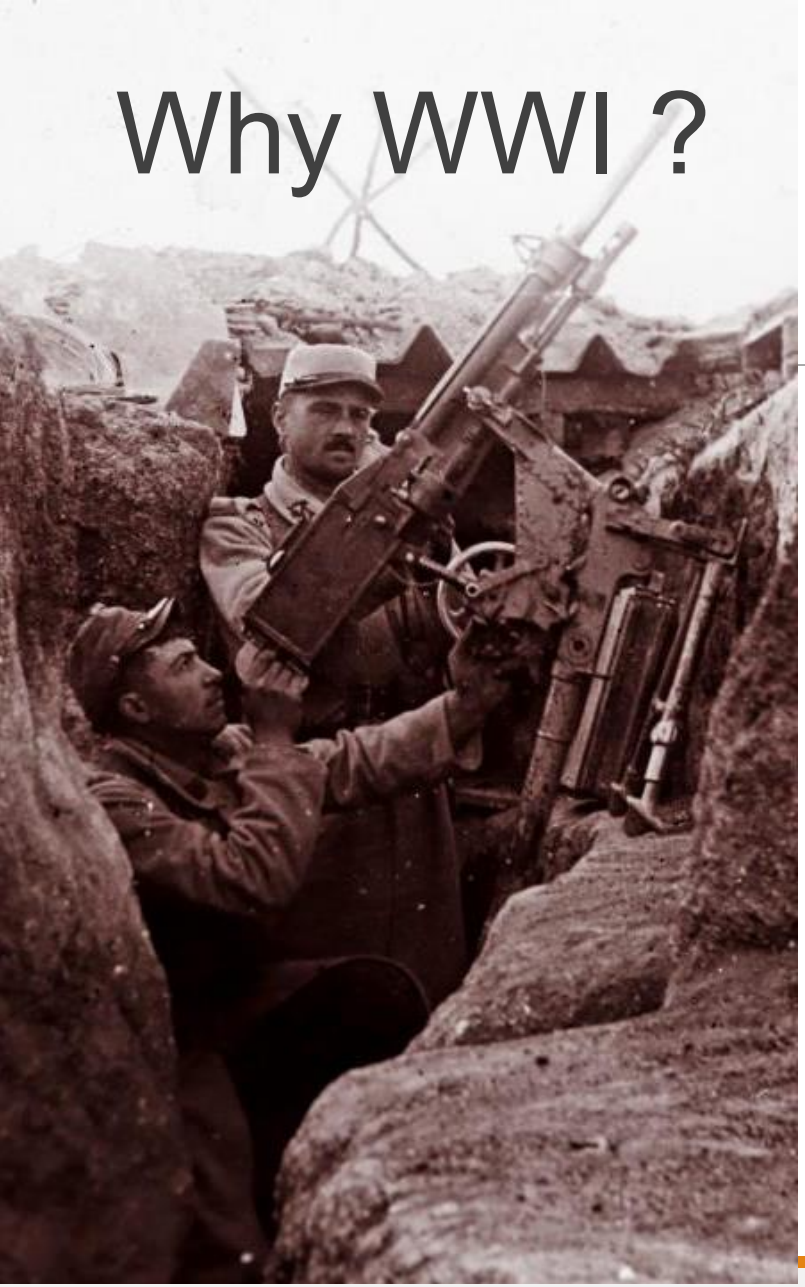
- Overall, the balance of power mechanism allowed the major powers to manage their conflicting interests
- Several tensions (Great Game, Morocco Crisis, the Boer War, the Balkan War) were solved with the re-alignment of alliances
- In 1914, one of those crisis was responded by a series of miscalculation of all major powers
- The assassination of the heir to the Austrian-Hungarian throne, however, triggered a crisis that ended in WWI. Why?
- There were several miscalculations by the different powers, which all expected short, decisive wars (like in 53-4, 66, 70-1, etc)
- Nevertheless, the mechanics of modern diplomacy (with telegraphs ensuring quick communications and declarations of war) and modern warfare (railways ensuring mobilized soldiers arriving at the front of battle in days) meant a miscalculations could send the military alliances in motion



2 The Death of the 1st Globalization



Why WWI ?



- WWI was the unantecipated effect of a mechanic interaction between the great powers, divided into two blocks
- Euro Great Powers '**sleepwalked** into the war'
  - Fast communications (telegraph) and transport led to the 'urge' do declare war ASAP
  - Alliances and blind military planning led to a Domino Effect (France "had" to declare war, once Russia and Germany entered into war; Russia "had" to anticipate mobilization; Germany "had" to quickly invade France through neutral Belgium;)
  - Few countries had discernible strategic or economic objectives
  - Widespread expectation that the war would be short, as war aims were ill-defined

Deglobalization

The institutions underpinning Globalization wiped out in **28 Jul 1914**:

- Gold standard is suspended and foreign investment flows interrupted (Germany, GB and France were the source of +90% of external investment)
- Commercial navigation was severely reduced (German U-Boats, Royal Navy blockade)
- Migration to the New World stopped immeditely (navigation risks, mobilization of soldiers, US restrictions)











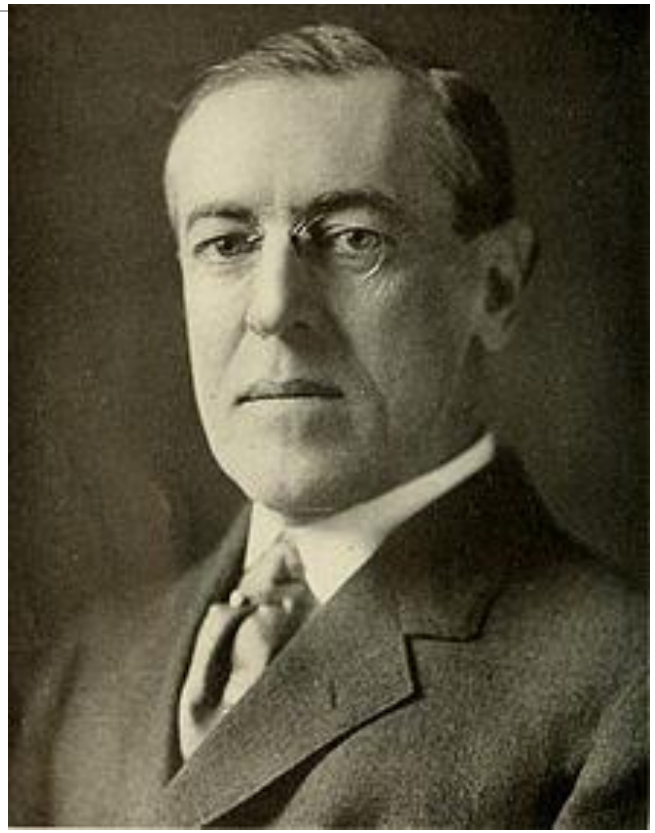
Share of Gov Spending in GDP, 1913-18 (% current prices)

	Australia	Canada	France	Germany	UK	USA
1913	5.5	7.0	10.0	9.8	8.1	1.8
1914	5.7	10.0	22.3	23.9	12.7	1.9
1915	9.6	13.1	46.4	43.8	33.3	1.9
1916	14.0	16.5	47.2	50.3	37.1	1.5
1917	17.2	15.7	49.9	59.0	37.1	3.2
1918	17.2	16.9	53.5	50.1	35.1	16.6

Source: Broadberry and Harrisson 2005

War ends: "peace without victory"?

- The miltary stalemate after Fall 1914 did not lead to negotiations because Germany still harboured hopes of winning the war (until mid-1918)
- Economic colapse doomed German expectations of Victory (see next slide)
- US neutral but gave financial support to GB and, through GB, to the Allied countries
- Reluctantly, US entered the war in 1917, aiming at “peace without victory“ (President Wilson), claiming that “this is a war to end all wars” and, hence, only a unilateral German surrender would be acceptable



Change in Real GDP (1914-8)

	UK	USA	Germany	Austria	Russia	France
1913	100.0	100.0	100.0	100.0	100.0	100.0
1914	92.3	101.0	85.2	83.5	94.5	92.9
1915	94.9	109.1	80.9	77.4	95.5	91.0
1916	108.0	111.5	81.7	76.5	79.8	95.6
1917	105.3	112.5	81.8	74.8	67.7	81.0
1918	114.8	113.2	81.8	73.3	–	63.9

Source: Broadberry and Harrisson 2005

The Versailles Treaty

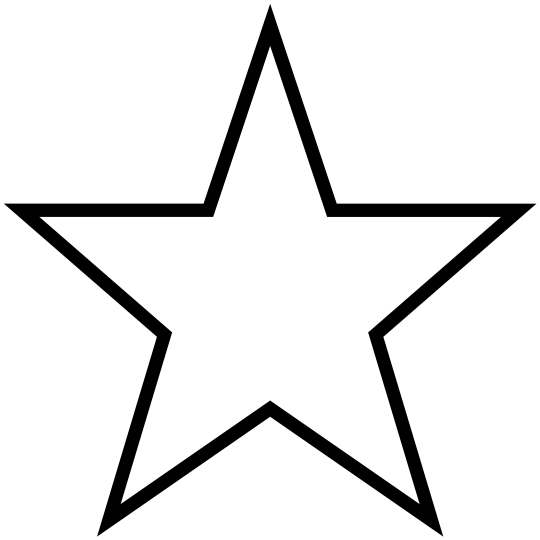
- Jan 1918 US sets the “Fourteen Points” (including point XI, which stated that a “compensation” was due by the “aggressor”)
- 11 Nov 1918 Germans negotiated Armistice **with the US and** accepted the Fourteen Points, trusting US promises of “reasonable” compensations
- After long peace negotiations, Versailles Treaty is signed 28 June 1919
  - Main issue: article 231 (Reparations)
    - France & England interested in German reparations to pay for the soldier’s pensions and other damages´
    - US inflexible in the credit demands

The end of the Liberal State

The Liberal state did not survive **World War I**:

- As great sacrífices were demanded of the population, politics became more democratic, with vote restrictions gradually lifted (including women). Overall, this meant that employment became an important political issue
- Gold standard is not viable (not enough gold reserves, as war led to widespread borrowing, backed by gold)
- Destruction of foreign markets, infrastructure and capital, along with the entry of women in the workforce enhanced the problems of the workers, especially the threat of unemployment and low wages (a problem that could not be solved with migration to the Americas, as befofehand)
- Also, war effort and then the war debts meant the state became larger and, hence, the economy less effficient

3. US Hegemony



Who Won WW1?

World Industrial Output (%)

	USA	Germany	GB	France	Rússia/ URSS	Sweden	Japan	India	Rest
1913	35,8	14,3	14,1	7,0	4,4	1,0	1,2	1,1	21,1
1926-9	42,2	11,6	9,4	6,6	4,3	1,0	2,5	1,2	21,2

Kenwood and Lougheed 1999: 173.

League of Nations

- US victory meant that the US had the keys to lead countries into a ‘Reglobalization’
- President Wilson proposed a multilateral institution (League of Nations (1920-46), to be tasked with rebuilding world order, including resuscitating economic liberalism worldwide:
  - Renewal of gold standard, supported by US loans to affected countries;
  - Loans for post-war reconstruction
  - Organization of a multilateral trade deal, creating a low tariff zone involving major economies



The League of Nations (2)

- Yet, the US did not join the League of Nations,
- As such, the League's potential for recreating Globalization was unfulfilled
- European states and businesses remained starved of credits for reconstruction and recovery
- European businesses could not count with trade liberalization in the US (which was already very protectionist) and lost incentives to liberalize



THE GAP IN THE BRIDGE.

Punch Magazine 10 December 1919

US Hegemony



- Until 1918, the USA was a rapid industralising protectionist periphery, with (proportionally) modest military power
- In 1918, the USA was no longer a net importer of Euro Capital, but an exporter
- In 1918, the USA was no longer a net importer of world manpower

The new econ leadership



- **Trade:** americans resolute protectionism meant that, unlike the UK in the First Globalization, the economic leader was not a free-trader, encouraging further protectionism abroad
- **Int'l K flows:** Restrictions on the free movement of capitals, commodities and workers increased, despite appeals from the League of Nations
- **Int'l L flows:** Even in a modified gold standard (as there was limits to convertibility), countries struggled to return to gold (UK in 1925; France in 1926; Italy in 1928; Portugal in 1932; Germany did not). However, the US restricted outward capital flows.



Rise of Protectionism

- The American resolute protectionism meant that, unlike the UK in the First Globalization, the economic leader was not a free-trader, encouraging further protectionism abroad
- Restrictions on the free movement of capitals, commodities and workers increased, despite appeals from the League of Nations
- Even in a modified gold standard (as there was limits to convertibility), countries struggled to return to gold, albeit (UK in 1925; France in 1926; Italy in 1928; Portugal in 1932; Germany did not)

Average tariff level

	1913	1931
France	20	30
Gemany	17	21
Italy	18	46
USA	44	48